IAC LIMITED

47TH ANNUAL REPORT 1971

IAC LIMITED

Incorporated under the laws of Canada,
February 7, 1925

Head office
45 St. Clair Ave. W., Toronto 195, Ontario

Executive offices
1320 Graham Blvd., Montreal 304, Quebec

The annual meeting of shareholders will be held at 11.30 a.m., Wednesday, April 26, 1972, at the Royal York Hotel, Toronto, Ontario

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47TH ANNUAL REPORT 1971

FOR THE YEAR ENDED DECEMBER 31, 1971

Highlights for the Year

	1971	1970	Per Cent Increase (Decrease)
Gross Income	$ 138,502,000	$ 143,244,000	(3.3)
Proportion taken up by			
Cost of borrowed money	38.1%	42.4%	
General and administrative expenses	29.4%	28.6%	
Earnings applicable to common shares	$ 18,351,000	$ 15,783,000	16.3
Dividends paid on common shares	$ 9,779,000	$ 8,769,000	11.5
Proportion of earnings	53.3%	55.6%	
Earnings per share	$1.50	$1.30	15.4
Dividends paid per share	$ .80	$ .72½	10.3
Income and other taxes per share	$1.66	$1.53	
Per cent income tax of pre-tax earnings	50.2%	51.5%	
Per cent return on average common equity	13.52%	12.47%	

At the Year End

Total consolidated assets	$1,232,940,000	$1,176,661,000	4.8
Number of common shareholders	12,802	13,502	(5.2)
—domiciled in Canada	95.6%	95.7%	
Number of common shares outstanding	12,306,118	12,131,720	1.4
—owned in Canada	95.2%	94.7%	

Officers

Chairman of the Board
L. E. NICHOL

President
K. H. MacDONALD

Executive Vice-President
J. S. LAND

Senior Vice-Presidents
R. E. CAMPBELL
D. W. MALONEY
C. W. NEILD

Vice-Presidents
A. P. BOLIN
J. Y. BUCHANAN
W. P. DAVIDSON
R. K. JACKSON
E. W. McCRACKEN, Secretary
S. F. MELLOY
F. P. PARADIS
C. N. SHANLY
W. J. VanWYCK

Assistant Vice-Presidents
J. C. BIRON
P. J. BROWN
G. C. CLERK
W. V. DALY
R. HEMOND
W. E. HODDINOTT
K. G. INCH
N. V. KEYES
A. S. MACKAY
B. S. MOWATT
C. R. STEWART
J. L. WARREN

Treasurer
G. K. DuPUY

Comptroller
J. J. TORS

Directors

FRANK M. COVERT, Q.C.
Halifax, N.S.
Partner, Stewart, MacKeen & Covert

JOHN S. DEWAR
Toronto, Ont.
President, Union Carbide Canada Ltd.

HON. GEORGE B. FOSTER, Q.C.*
Montreal, Que.
Partner, Foster, Leggat, Colby & Rioux

CONRAD F. HARRINGTON
Montreal, Que.
Chairman & Chief Executive Officer
The Royal Trust Company

PETER KILBURN*
Montreal, Que.
Chairman, Greenshields Incorporated

LOUIS A. LAPOINTE, Q.C.*
Montreal, Que.
Chairman and President, Miron Company Ltd.

KEITH H. MacDONALD*
Toronto, Ont.
President

HOWARD T. MITCHELL
Vancouver, B.C.
President, Mitchell Press Limited

LYNDON E. NICHOL*
Toronto, Ont.
Chairman of the Board and Vice-Chairman of the Executive Committee

JOHN L. O'BRIEN, Q.C.*
Montreal, Que.
Partner, O'Brien, Home, Hall, Saunders, O'Brien & Smyth

JOHN B. PENNEFATHER*
Montreal, Que.
Chairman of the Executive Committee

JOSEPH H. RANAHAN
Montreal, Que.
Retired, former Chairman of the Board

CHARLES I. RATHGEB
Toronto, Ont.
President, Canadian International Comstock Company Ltd.

RENAULT S. ST-LAURENT, Q.C.
Quebec, Que.
Partner, St-Laurent, Monast, Desmeules & Walters

GRANT E. WEMP
Toronto, Ont.
Honorary Chairman of the Board

DENNIS K. YORATH
Edmonton, Alta.
Chairman of the Executive Committee and Vice-President, International Utilities Corp.

*Member of the Executive Committee of the Board as at December 31, 1971.

Report of the Directors to the Shareholders

It is gratifying to report that your company enjoyed another year of record earnings in 1971. Earnings applicable to common shares amounted to $18.4 million, up 16.3% from 1970. On the daily average of common shares outstanding, this was equivalent to $1.50 per share, 20 cents higher than for the previous year.

The most significant factor contributing to the improved results was the lower cost of borrowed money, which represents the largest element of expenditure. The average cost at 6.7% compared to 7.4% for the previous year, the reduction being attributable primarily to a decline in the rates on short and medium term funds.

Growth in assets of 4.8% exceeded the 2% growth in 1970. However, because the increase occurred in the latter months of the year and because of certain downward rate adjustments, gross income was below that of the previous year.

Principal highlights of the year's results are tabulated on page one and more detailed remarks on operations are contained in the General Commentary which follows.

During the year, $20 million in long term debt was issued, represented by 7⅞% Secured Notes Series B of subsidiary, Niagara Realty of Canada Limited.

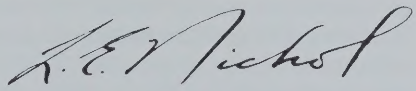
Your Directors wish to record the following elections and appointments by the Board during 1971:

L. E. Nichol was elected Chairman of the Board at the August meeting, on the occasion of the retirement of J. B. Pennefather after forty-four years of outstanding service with your company. Mr. Pennefather continues to serve as Chairman of the Executive Committee of the Board. Concurrently, K. H. MacDonald was elected President of the company. J. S. Land was appointed Executive Vice-President and R. K. Jackson a Vice-President. Other appointments made at the September meeting were: R. Hemond as an Assistant Vice-President and J. J. Tors as Comptroller.

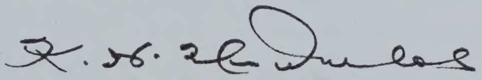
The favourable results recorded in this report are evidence of the high quality of performance by the staff of the IAC organization. Accordingly, your Directors wish to express warm thanks and appreciation for the loyalty, enthusiasm and good judgment exercised in the pursuit of the company's objectives.

It is now generally recognized that the economic outlook in Canada is improving and your Board expects that this trend will continue. Resulting renewed confidence should express itself in rising investment in new capital equipment and in the consumer sector in increased spending. In the opinion of your Directors, the strength of your company's management and staff, its strong financial position and the diversity of its services combine with these factors to justify an optimistic outlook for continued growth in assets and earnings in the year 1972.

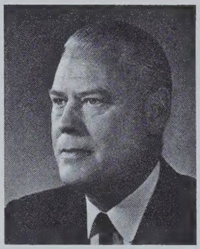
On behalf of the Board



Chairman



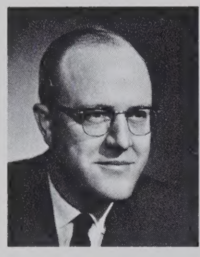
President



L. E. NICHOL
Chairman

K. H. MacDONALD
President

General Commentary



J. S. LAND
Executive
Vice-President

It is hoped that the following comments, in supplementing information to be found elsewhere in this report, will be useful to shareholders in interpreting the financial statements.

Growth trends and the relative importance of the diversified activities of your company and its subsidiaries are illustrated in the charts accompanying this commentary and the specialized services provided to corporations and individuals are briefly outlined.

The principal sources of gross income are tabulated on page 12, Note 2.

General and administrative expense as a percentage of gross income increased marginally to 29.4% from 28.6% in the previous year. In dollar terms, however, there was a small decline to $40.7 million from $40.9 million.

Casualty insurance claims incurred by Merit Insurance Company were down $833,000, reflecting a reduction of the loss ratio to 68.3% from 71.3% for the previous year. However, as the result of increased reinsurance premiums and some increase in general expense, earnings were $179,000 as compared to $246,000 in 1970. Improved results in 1972 are anticipated.

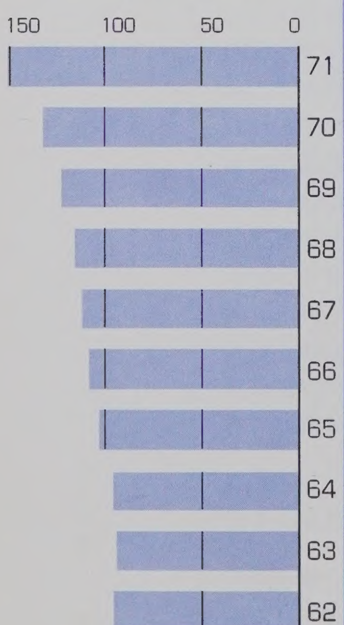
The parent company's portion of the increase in unassigned surplus of the life assurance subsidiary increased for the fifth consecutive year and was up 21% over 1970. Furthermore, the record volume of new business written in 1971, while not contributing significantly to that year's earnings will, of course, produce income in future years.

Provision for income taxes, current and deferred, increased by $1.6 million but declined as a percentage of pre-tax earnings from 51.5% in 1970 to 50.2%.

Allowance for doubtful receivables was increased by $1.9 million to $16.4 million. In the opinion of your management and the company's auditors, this amount is adequate in relationship to the portfolio. Consolidated write-offs during 1971 amounted to .49% of average receivables as against .57% in the previous year.

EARNINGS PER SHARE

Cents per share



Retained earnings increased by $8.6 million during the year after payment of dividends on preferred and common shares totalling $10.8 million. The dividend per common share was $0.80 as compared to $0.72½ in 1970. Thus, 1971 marked the sixteenth consecutive year in which the common dividend payout was increased and the thirty-fifth consecutive year in which dividends were earned and paid.

In summary, the position of your company is strong by any measurement. Performance statistics on its portfolio of receivables, as the result of careful selection of business and sound administration, compare favourably to any previously recorded.

The company's short and medium term notes, sold in the money markets, enjoy the highest rating and excellent acceptance by investors. Backing up these borrowings are established lines of credit totalling over $260 million with 27 banks, eight in Canada and 19 in the U.S.A. The consolidated ratio of debt to equity at 5.29 to 1 at year-end was low by historical standards. The ratio of demand and short term debt to total debt at 32.3% was also low which, of course, will enable your company to continue to benefit from the relatively more favourable cost of short and medium term money.

Your company is thus in an excellent position to take advantage of opportunities arising out of the more buoyant economic climate predicted for 1972.

Your Company's Services

The accompanying charts illustrate a gradual but definite change in the mix of receivables of the IAC companies. It seems appropriate, therefore, to comment on the services that have generated and increased earnings to their present levels.

SALES FINANCING

Your company buys wholesale contracts covering sales made by manufacturers to their dealers for inventory and resale. The bulk of wholesale receivables result from the purchase of contracts covering motor vehicles.

During 1971 your company financed 283,000 vehicles for a wholesale value of $903 million. The products of every make, domestic and imported, were represented. More than twenty-five per cent of all cars on Canadian roads and highways were originally financed by IAC in this way. A significant number of these were also financed at retail.
Retail sales finance transactions originate when a purchaser agrees to pay the vendor for goods purchased on instalment terms. The agreement signed, a conditional sale contract, is bought by your company from the vendor for the amount owing after deducting an appropriate service charge. The vendor receives immediate cash for goods sold and is thus relieved of the delay in payment and attendant administration. The purchaser obtains the credit required along with other benefits included in the plan.
Most of your company's receivables result from the sales financing of durable goods—by both the consumer and business.

Transportation Equipment
Over half of your company's receivables result from the financing or leasing of transportation equipment of all kinds—trucks, tractors, trailers, buses, passenger cars, diesel locomotives, freight cars, ships, barges and boats, containers, aircraft, helicopters and off-highway carriers. Of these, the largest source of receivables has been the automotive industry.

Passenger Cars
IAC retail plans provide safe, flexible credit facilities for dealers and their customers to complete transactions at the point of sale. The security is in the vehicle being purchased. In effect, the purchaser's only risk is his normal deposit or trade-in. His obligation to repay is protected by life insurance and his ability to pay by the availability of health and accident coverage.

Trucks
The increasing size, capacity and cost, as well as the proliferation of special purpose units have made the truck industry an important and growing market. Your company buys contracts covering individual units costing from a few thousand dollars to tens of thousands. Truck fleet transactions involving amounts over one hundred thousand dollars are not uncommon. Included are: large diesel tractors, tankers, refrigerator and redi-mix units; special purpose, off-highway vehicles for logging, oil exploration and mining; trailers of all types, buses, delivery trucks, jeeps and vans.
As Canada's population grows and its industry diversifies, more and more truck transportation will be required. Your company's long experience in providing specialized truck financing systems becomes an increasingly important service.

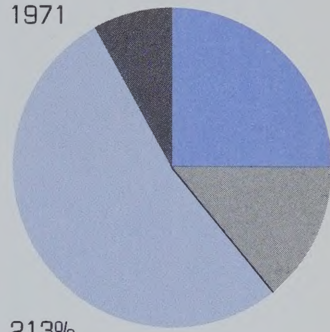
Mobile Homes, Farm Equipment, Home and Recreational Products
Receivables of $120 million relate to products in these categories, the largest investment being in the rapidly expanding mobile home field in which your company has been a leader for more than twenty-five years. In the early years of this industry, mobile homes were bought almost exclusively by itinerant workers and the military. Today, more often than not, mobile homes are permanently located in attractive parks and have become an excellent, growing source of sound business for your company.
Because of IAC's widespread branch organization, particularly in the smaller Canadian centres, your company has always enjoyed a constant though modest percentage of farm equipment financing. As Canadian farms are combined into larger units, an increasing amount of this business is becoming available. IAC subsidiary, Niagara Finance, also engages in the purchase of contracts covering a wide range of home and recreational products.

Industrial and Commercial Equipment
Machinery and equipment financed by your company is at work across Canada—building roads, manufacturing products, moving materials, searching for oil, harvesting lumber and grain, erecting buildings and speeding communications. Constructive sales finance credit of this type is available to the end user through equipment distributors or directly through local IAC branches as well as through specialized industrial branches in principal Canadian cities.
As a result of generally rising capital expenditures in the fourth quarter, year-end receivables in this category reached an all-time high.

LEASING
For business, industry and the professions, leasing is a sound, economic alternative to

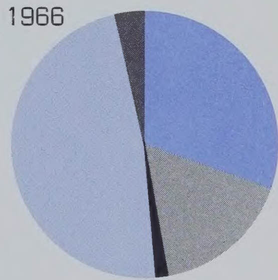
RECEIVABLES AND THEIR COMPOSITION

1971



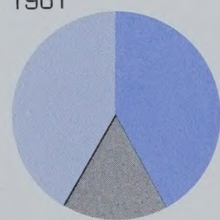
213%
$1,137,241,000

1966



166%
$887,427,000

1961



100%
$533,926,000

Consumer Sales Finance
Consumer Loans
Residential Mortgages
Business Financing (includes leases)
Other

debt financing and an additional source of credit.

In a typical lease transaction, a client company chooses equipment it requires from a supplier it selects and at a price it negotiates. IAC then arranges to buy the equipment from the supplier and leases it to the client. The client makes lease payments to IAC over the economic life of the equipment and has the use of it without major capital investment.

At year-end the investment in capital equipment owned by your company and leased to clients amounted to $148 million. Growth in leasing has more than kept pace with expectations. The receivables have almost doubled since 1969.

Leasing business is developed in two principal ways—

Capital Assets Leasing is a highly specialized service for major corporations provided through your company's Capital Funds Division. When the large corporation plans a substantial investment in fixed assets, cash flow, tax and other considerations often make leasing the most attractive financing medium. The size and complexity of these transactions require the individually designed and negotiated lease arrangements made possible through Capital Assets Leasing. This division has handled large transactions involving shipping, grain handling and storage, computer installations, a cannery, aircraft, diesel locomotives and freight cars. It is entirely feasible, for instance, for IAC, on behalf of a client, to buy the equipment and lease a complete pollution control system including the cost of design, engineering and installation.

Vendor Source Leasing, in the same way, is an economic alternative to debt financing and to equipment sales financing for industrial, commercial and professional clients. Lease plans, available through all branches in conjunction with branches of the company's industrial division, allow the machinery and equipment distributor to sell equipment to IAC for lease to his customers.

Plant machinery, construction equipment, office furniture, materials handling equipment, store fixtures, mining, logging and fishing equipment; all can be purchased by IAC and leased to the user. These lease arrangements may be initiated by either user or vendor.

Specialized lease plans for distributors of distinct types of equipment are also available. For instance, special lease plans for office equipment, trucks, containers, transportation equipment and construction equipment are included in the company's services.

The financing and leasing of specialized equipment for the medical, dental and other professions have long been a part of your company's business. However, during the latter part of 1971, new IAC programs for professional equipment leasing were developed which make special provision for the young professional. It allows the new graduate from dental school, for instance, to lease the equipment he needs to set up practice with the first lease payments being delayed during the commencement of practice.

CONSUMER LENDING

The cash loan receivables of Niagara Finance Company Limited at the end of 1971 stood at $159 million and have been increasing at a rate of approximately $3 million per year. The moderate gains reflect the stability and maturity of this class of business. Niagara continues to be the largest all-Canadian consumer loan company, providing its services through 255 branches in Canada and 10 in the United Kingdom. Its branch organization in the United Kingdom, while small, is undergoing a modest expansion. (See page 22.)

RESIDENTIAL MORTGAGES

Through Niagara Realty, your company offers first and second mortgage loans on residential properties and buys existing mortgages of the same type. Residential mortgage receivables, at $76 million, have grown at the rate of approximately $12 million a year. (See page 26.)

INSURANCE

Casualty insurance is provided through Merit Insurance Company and life and disability coverages through the Sovereign Life Assurance Company. An increasingly closer relationship between these two companies has proven beneficial to both. A more detailed report on the operations of these companies will be found on pages 30 and 33 respectively.

Financial Section

A Supplement to the Annual Report for those desiring more detailed information is available on request to the Secretary.

Auditors' Report

McDONALD, CURRIE & CO.
CHARTERED ACCOUNTANTS

COOPERS & LYBRAND
IN PRINCIPAL AREAS
OF THE WORLD

TELEPHONE (514) 875-5140
630 DORCHESTER BOULEVARD WEST
MONTREAL 101, QUEBEC, CANADA

TO THE SHAREHOLDERS:

We have examined the consolidated balance sheet of IAC Limited and subsidiaries as at December 31, 1971 and the consolidated statements of earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles which, except for the change referred to in note 10 with which we concur, have been applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co.

February 11, 1972

CHARTERED ACCOUNTANTS

Consolidated Statement of Earnings
for the year ended December 31, 1971

	1971 $000's		1970 $000's	
GROSS INCOME (note 2)		138,502		143,244
EXPENDITURE (note 3)				
Cost of borrowed money—				
Secured notes	45,080		53,476	
Debentures	7,758		7,217	
	52,838		60,693	
Casualty insurance claims incurred	6,510		7,343	
General and administrative	40,740	100,088	40,938	108,974
		38,414		34,270
PROVISION FOR INCOME TAXES (note 5)				
Current	10,369		5,391	
Deferred	8,930	19,299	12,265	17,656
		19,115		16,614
PARENT COMPANY'S PORTION OF INCREASE IN UNASSIGNED SURPLUS OF LIFE ASSURANCE SUBSIDIARY		300		248
EARNINGS		19,415		16,862

Consolidated Statement of Retained Earnings
for the year ended December 31, 1971

	1971 $000's	1970 $000's
Earnings for the year	19,415	16,862
Dividends on preferred shares	1,064	1,079
EARNINGS APPLICABLE TO COMMON SHARES	18,351	15,783
Dividends on common shares at $0.80 per share (1970–$0.72½)	9,779	8,769
Earnings retained in the business	8,572	7,014
Gain on preferred shares purchased for cancellation	52	241
Increase in retained earnings for the year	8,624	7,255
Retained earnings at beginning of year	97,633	90,378
Retained earnings at end of year (note 6)	106,257	97,633

Common Stock Earnings per Share

	1971 $	1970 $
Calculated on daily average of common shares outstanding (note 7)	1.50	1.30

Consolidated Balance Sheet
as at December 31, 1971

ASSETS	1971 $000's	1970 $000's
CURRENT ASSETS		
Cash	30,638	26,516
Receivables–		
Sales financing–wholesale	177,130	137,116
–retail	516,973	533,823
Dealer loans	17,816	16,559
Consumer loans	159,102	155,565
Residential mortgages	75,992	62,631
Commercial loans	39,501	56,107
Leasing	147,618	117,062
Other	879	808
Property, vehicles and equipment held for sale	2,230	3,283
(note 9)	1,137,241	1,082,954
Allowance for doubtful receivables	16,384	14,504
	1,120,857	1,068,450
Marketable securities–at cost or amortized values plus accrued interest (quoted value 1971–$24,382,000; 1970–$22,445,000) (note 8)	26,022	24,206
Commercial paper receivable	37,478	37,522
	63,500	61,728
	1,214,995	1,156,694
OTHER ASSETS AND DEFERRED CHARGES		
Cash committed for debenture and preferred stock retirement	442	520
Investment in life assurance subsidiary (note 1)	4,949	4,649
Investment in other companies	657	657
Leasehold improvements and prepaid expenses	1,812	1,684
Unamortized debt discount and expense	6,059	8,429
Premises and equipment–at cost, less accumulated depreciation of $4,919,000 (1970–$5,133,000)	4,026	4,028
	17,945	19,967
	1,232,940	1,176,661

Signed on behalf of the Board

L. E. NICHOL } Directors
K. H. MacDONALD

LIABILITIES	**1971** $000's	1970 $000's
CURRENT LIABILITIES		
Secured demand bank loans	26,000	25,000
Secured short-term notes	248,852	236,278
Accounts payable and accrued liabilities	49,561	36,382
Income taxes	5,132	233
Dealer credit balances	16,343	16,280
(note 9)	345,888	314,173
SECURED MEDIUM-TERM NOTES (schedule A and note 10)	149,586	148,371
SECURED LONG-TERM NOTES (schedule B and note 10)	312,691	313,469
DEBENTURES (schedule C and note 11)	93,894	96,792
SUBORDINATED DEBENTURES (schedule D and notes 11 and 13)	19,821	21,596
(note 9)	575,992	580,228
UNEARNED INCOME		
Service charges	93,892	91,167
Casualty insurance premiums	4,181	4,512
	98,073	95,679
UNREALIZED FOREIGN EXCHANGE GAIN (note 10)	7,222	
DEFERRED INCOME TAXES (note 12)	44,883	35,953
	1,072,058	1,026,033
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (schedule E)		
Preferred stock	19,346	19,842
Common stock (note 13)	35,279	33,153
	54,625	52,995
RETAINED EARNINGS (note 6)	106,257	97,633
	160,882	150,628
	1,232,940	1,176,661

Notes to Consolidated Financial Statements
for the year ended December 31, 1971

1 PRINCIPLES OF CONSOLIDATION

The statements consolidate the accounts of the company and its subsidiaries with the exception of those of The Sovereign Life Assurance Company of Canada. The nature of the business of this subsidiary does not permit a meaningful presentation in the consolidation. The investment in its shares is stated at cost plus the parent company's portion of increase in unassigned surplus of the subsidiary since acquisition.

2 GROSS INCOME

	1971	1970	Increase (decrease)	
	$000's	$000's	$000's	%
Source				
Sales financing and dealer loans	78,775	85,094	(6,319)	(7.4)
Consumer loans	29,567	29,203	364	1.2
Residential mortgages	9,414	7,319	2,095	28.6
Commercial loans and leasing	15,394	13,713	1,681	12.3
	133,150	135,329	(2,179)	(1.6)
Provision for doubtful receivables	7,250	6,290	960	15.3
	125,900	129,039	(3,139)	(2.4)
Casualty insurance premiums	9,524	10,301	(777)	(7.5)
Marketable securities and commercial paper	3,078	3,904	(826)	(21.2)
	138,502	143,244	(4,742)	(3.3)

3 EXPENDITURE

Expenditure includes the following:	**1971** $	1970 $
Cost of borrowed money on indebtedness initially incurred for a period of more than one year	38,391,479	37,608,359
Depreciation of premises and equipment	837,896	822,931

4 REMUNERATION OF DIRECTORS AND OFFICERS

	1971	1970
Aggregate remuneration of the IAC Limited directors as directors of—		
IAC Limited	56,400	57,300
Niagara Finance Company Limited	11,000	10,100
Merit Insurance Company	10,700	11,500
Premier Property Limited	90	130
The Sovereign Life Assurance Company of Canada	5,300	4,700
	83,490	83,730
Number of directors of IAC Limited	16	16
Aggregate remuneration of the IAC Limited officers as officers of IAC Limited	$1,081,973	$ 923,925
Aggregate remuneration of the IAC Limited officers as directors of—		
Niagara Finance Company Limited	1,600	1,500
Merit Insurance Company	2,800	2,900
Premier Property Limited	140	140
The Sovereign Life Assurance Company of Canada	1,400	1,200
	$ 5,940	$ 5,740
Number of IAC Limited officers	20	20
Number of IAC Limited officers who are also directors	3	3

5 TAX RELIEF AVAILABLE FOR FUTURE YEARS

As at December 31, 1971, a subsidiary had losses for tax purposes of approximately $508,000 available for application against taxable income of future years not later than as follows:

1974	$420,000
1976	88,000

6 RETAINED EARNINGS—STATUTORY APPROPRIATION

An amount equal to the par value of preferred shares purchased for cancellation has been set aside in the accounts out of retained earnings (1971—$5,654,275; 1970—$5,158,275).

7 FULLY DILUTED EARNINGS PER SHARE

Assuming that on January 1, 1971 all shares reserved as shown in note 13 had been issued, fully diluted earnings for the year ended December 31, 1971 would have been $1.39 (1970—$1.20) per share. The calculation assumes that earnings applicable to common shares were increased:

(a) by $271,000 representing the elimination of interest, net of income taxes, attributable to the 7% convertible debentures; and

(b) by $326,000 representing interest at 6½% per annum, net of income taxes, imputed to a notional reduction of borrowings by application of the funds which would have arisen had all options and purchase warrants been exercised.

8 MARKETABLE SECURITIES

Marketable securities include those of the casualty insurance subsidiary, at cost plus accrued income, amounting to $11,461,000 (1970—$11,662,000) (quoted value—1971—$10,639,000; 1970—$10,333,000).

9 MATURITIES OF GROSS RECEIVABLES AND PAYABLES

(in millions of dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5	Years 6-10	Years over 10	Total
RECEIVABLES								
Sales financing—								
Wholesale	177.1							177.1
Retail	275.2	144.4	58.3	15.4	8.9	14.8		517.0
Dealer loans	4.0	3.0	2.5	3.0	3.1	2.0	.2	17.8
Consumer loans	77.7	56.4	21.6	3.3	.1			159.1
Residential mortgages	3.9	4.5	5.0	5.3	4.9	23.8	28.6	76.0
Commercial loans and leasing	27.2	22.1	27.0	19.4	15.2	42.5	33.7	187.1
Other receivables and property, vehicles and equipment held for sale	3.1							3.1
	568.2	230.4	114.4	46.4	32.2	83.1	62.5	1,137.2
PAYABLES								
Debt	364.6	53.4	49.5	4.0	6.2	82.4	290.7	850.8
Other	58.5	6.7	3.0	.9	.5	1.0	.4	71.0
	423.1	60.1	52.5	4.9	6.7	83.4	291.1	921.8
EXCESS OF RECEIVABLES (PAYABLES)	145.1	170.3	61.9	41.5	25.5	(.3)	(228.6)	215.4

10 SECURED MEDIUM AND LONG-TERM NOTES PAYABLE IN U.S. FUNDS

As at June 30, 1971 the company adopted the policy of stating unhedged medium and long-term notes payable in U.S. funds at the Canadian equivalent based upon the exchange rate prevailing at the close of the related financial period. Previously such debt had been stated in Canadian funds on the basis of proceeds received.

The application of this new policy has resulted in unrealized gains totalling $7,983,000 and an unrealized loss in respect of Series "S" notes of $761,000. The net amount of $7,222,000 has been credited to "Unrealized foreign exchange gain" and is so reflected in the balance sheet as at December 31, 1971.

Future fluctuations in the exchange rate as they affect outstanding medium and long-term notes payable in U.S. funds will be recorded in this account so long as accumulated unrealized gains exceed unrealized losses.

11 SINKING FUND REQUIREMENTS

Debenture and subordinated debenture sinking fund requirements for the year to December 31, 1972 amount to $1,333,000.

12 DEFERRED INCOME TAXES

Deferred income taxes arise from timing differences relating to the treatment of income or expenses associated with the following balance sheet items:

	1971 $000's	1970 $000's
Residential mortgages	300	249
Leasing receivables	42,520	33,459
Unamortized debt discount and expense	1,415	1,611
Premises and equipment	169	166
Unearned casualty insurance premiums	479	468
	44,883	35,953

13 COMMON STOCK

Common shares are reserved for issue as follows:

	Shares reserved **1971**	Shares reserved 1970
(a) Personnel stock purchase plan— This is a continuing plan available after three years of service to all employees, certain of whom are directors, at $17.32 per share during 1972 (1971—$15.18) allocated on a formula based on annual remuneration	159,158	174,555

(b) 1967 stock option plan, expiring July 26, 1972—
Available to employees as determined by the Board of Directors at a price not less than 90% of the last board lot sale on the Montreal Stock Exchange on the day preceding the date upon which the option is granted. As at December 31, 1971 options had been granted to employees, certain of whom are directors, as follows:

Price per share	Options granted	Options exercised	Shares reserved
$10.125	133,900	113,184	20,716
11.375	5,550	3,300	2,250
12.15	10,000	9,400	600
12.825	3,000	2,500	500
13.17	2,200	1,750	450
16.425	500	500	
16.65	400	200	200
	155,550	130,834	24,716
Reserved for future options			4,450

	Shares reserved **1971**	Shares reserved 1970
(b) 1967 stock option plan	29,166	80,967
(c) Purchase warrants exercisable to August 14, 1974 at $12.50 per share attached to the 1966 6¾% subordinated sinking fund debentures	598,300	599,420
(d) Conversion right exercisable until October 31, 1972 at 80 shares (equivalent to $12.50 per share) and thereafter until October 31, 1977 at 70 shares (equivalent to $14.285 per share) for each $1,000 of principal of the 1967 7% convertible subordinated debentures	632,400	738,480
	1,419,024	1,593,422

During the year 68,318 shares were issued for cash and 106,080 shares were issued on conversion of 7% convertible subordinated debentures.

14 CONTINGENT LIABILITIES

The company and one of its subsidiaries are defendants in legal actions amounting to approximately $8,100,000. Counsel for the companies are of the opinion that none of the actions will result in a material liability.

15 SOURCE AND APPLICATION OF FUNDS

Because of the nature of the activities of the company and its subsidiaries, it is not meaningful to prepare a consolidated statement of source and application of funds.

Details of Secured Term Notes, Debentures and Capital Stock

Details of Secured Medium-Term Notes

SCHEDULE A

(issued for a term of over one and not more than ten years at various rates of interest)
as at December 31, 1971

	Year of maturity	Par value U.S. $000's	**1971** $000's	1970 $000's
Payable in Canadian funds– Parent company	1971			55,762
	1972		71,973	45,488
	1973		47,981	26,950
	1974		14,212	8,017
	1975		1,141	1,141
	1976		6,189	173
	1977		117	92
	1978		5	5
	1979		285	285
	1980		10	10
			141,913	137,923
Niagara Finance Company Limited	1971			1,184
	1972		730	375
	1973		550	383
	1974		1,100	1,100
	1975		90	90
	1976		51	6
	1977		21	21
	1979		15	15
	1980		20	20
			2,577	3,194
Payable in U.S. funds– Parent company	1971			2,158
	1972	1,000	1,018	1,018
	1973	4,000	4,078	4,078
		5,000	5,096	7,254
			149,586	148,371

Notes payable in U.S. funds have been converted to Canadian funds at exchange rates established under forward exchange contracts.

Details of Secured Long-Term Notes

(issued for a term of more than ten years)
as at December 31, 1971

SCHEDULE B

	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	**1971** $000's	1970 $000's
Payable in Canadian funds–							
Parent company	1954	"O"	$4\frac{1}{4}$	July 2, 1972		10,000	10,000
	1956	"Q"	$4\frac{1}{2}$	March 15, 1971			12,500
	1959	"T"	$5\frac{3}{4}$	April 1, 1979		6,000	6,000
	1959	"U"	$6\frac{1}{2}$	December 1, 1974		12,500	12,500
	1959	"V"	$6\frac{1}{2}$	December 1, 1979		5,000	5,000
	1960	"W"	6	August 15, 1980		7,500	7,500
	1961	"X"	$5\frac{3}{4}$	November 15, 1981		8,500	8,500
	1962	"Y"	5.40	July 2, 1982		10,000	10,000
	1964	"28"	$5\frac{3}{4}$	September 15, 1984		15,000	15,000
	1965	"31"	$5\frac{3}{4}$	March 1, 1985		12,500	12,500
	1965	"33"	6	December 1, 1985		5,000	5,000
	1966	"34"	$6\frac{1}{2}$	February 1, 1986		6,000	6,000
	1969	"37"	$8\frac{1}{4}$	May 1, 1974		15,350	15,350
						113,350	125,850

Series "37" notes are classified as long-term notes because they may be exchanged at the date of maturity at the holder's option for $8\frac{1}{4}$% notes maturing May 1, 1979, $8\frac{1}{2}$% notes maturing May 1, 1984, or $8\frac{3}{4}$% notes maturing May 1, 1989. The $8\frac{1}{4}$% 1979 notes may in turn be exchanged at maturity for either $8\frac{1}{2}$% 1984 notes or $8\frac{3}{4}$% 1989 notes.

	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	**1971** $000's	1970 $000's
Niagara Finance Company Limited	1964	"1"	$5\frac{3}{4}$	April 15, 1984		10,000	10,000
	1964	"2"	$5\frac{3}{4}$	May 1, 1985		10,000	10,000
	1965	"3"	$5\frac{3}{4}$	May 1, 1985		10,000	10,000
	1966	"4"	$7\frac{1}{2}$	December 1, 1986		5,000	5,000
	1968	"5"	$8\frac{1}{4}$	May 1, 1988		7,500	7,500
						42,500	42,500
Niagara Realty of Canada Limited	1970	"A"	$9\frac{1}{4}$	December 15, 1990		10,000	10,000
	1971	"B"	$7\frac{7}{8}$	December 15, 1986		20,000	
						30,000	10,000

The interest rate on Series "A" notes increases to $9\frac{1}{2}$% on December 15, 1973 and to $9\frac{3}{4}$% on December 15, 1975. Holders have the right to prepayment on December 15, 1973, 1975, 1980 or 1985.
Holders of Series "B" notes have the right to prepayment on December 15, 1978.
The parent company has guaranteed Series "A" and "B" notes as to principal, interest and redemption premiums, if any.

	Year of issue	Series	Rate %	Maturity date	Par value U.S. $000's	**1971** $000's	1970 $000's
Payable in U.S. funds (note 10)–							
Parent company	1957	"S"	$5\frac{1}{2}$	February 15, 1977	16,200	16,240	16,281
	1962	"Z"	$5\frac{1}{4}$	October 1, 1982	10,000	10,025	10,792
	1963	"27"	$5\frac{1}{4}$	April 1, 1988	10,000	10,025	10,781
	1964	"29"	5	October 1, 1984	10,000	10,025	10,762
	1965	"30"	5	February 15, 1985	15,000	15,038	16,125
	1965	"32"	$5\frac{1}{2}$	October 1, 1987	20,000	20,050	21,500
	1966	"35"	$5\frac{3}{4}$	February 1, 1986	12,825	12,857	15,046
	1968	"36"	$7\frac{3}{4}$	October 15, 1986	15,000	15,037	16,098
	1969	"38"	$9\frac{1}{2}$	June 1, 1990	17,500	17,544	17,734
					126,525	126,841	135,119
Holders of Series "38" notes have the right to prepayment on June 1, 1975, 1980 or 1985.						312,691	313,469

Details of Debentures
as at December 31, 1971

SCHEDULE C

Payable in Canadian funds–	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	Outstanding **1971** $000's	Outstanding 1970 $000's
Parent company	1953	5	January 2, 1971			718
	1953	5½*	July 2, 1973	5,000	748	985
	1954	5¼*	February 1, 1974	7,500	3,654	3,895
	1954	4½*	October 1, 1974	5,000	2,663	2,672
	1956	5¼*	June 1, 1975	5,000	2,737	2,809
	1957	5¾	January 15, 1977	12,000	6,435	6,676
	1957	6	September 1, 1977	5,000	3,873	3,888
	1958	5½	February 1, 1978	6,000	3,714	3,778
	1959	6	June 15, 1979	10,000	7,957	8,149
	1960	6¾	February 1, 1980	10,000	8,097	8,532
	1961	5¾	July 2, 1981	10,000	8,686	8,733
	1962	5¾	February 15, 1982	10,000	8,104	8,183
	1965	6½*	December 15, 1983	10,000	8,154	8,271
	1966	7½*	December 15, 1986	10,000	8,322	8,753
	1970	9½*†	October 15, 1992	15,000	14,750	14,750
					87,894	90,792
Niagara Finance Company Limited	1967	7¼**	June 30, 1972	6,000	6,000	6,000
					93,894	96,792

*Sinking fund debentures. All others have purchase fund provisions.
†Holders have the right to prepayment on October 15, 1982.
**These were exchangeable at the holder's option for 7¼% sinking fund debentures Series "A" due June 30, 1987 provided an election to exchange was filed in January 1972. Holders of $74,000 of the debentures have so elected.

Details of Subordinated Debentures
as at December 31, 1971

SCHEDULE D

Payable in Canadian funds–	Year of issue	Rate %	Maturity date	Amount authorized and issued $000's	Outstanding **1971** $000's	Outstanding 1970 $000's
Parent company	1966	6¾*	August 15, 1984	15,000	11,916	12,365
	1967	7 **	November 1, 1985	10,000	7,905	9,231
					19,821	21,596

*Sinking fund debentures with common share purchase warrants attached (note 13).
**Convertible debentures (note 13).

Details of Capital Stock
as at December 31, 1971

SCHEDULE E

	1971 Shares	**1971** Amount $000's	1970 Shares	1970 Amount $000's
PREFERRED STOCK				
Authorized and issued–				
4½% cumulative shares of $100 each redeemable at $101	100,000	10,000	100,000	10,000
Purchased for cancellation	44,187	4,419	43,077	4,308
	55,813	5,581	56,923	5,692
5¾% cumulative shares of $25 each redeemable at $26.50 to May 15, 1977; $26.25 to May 15, 1981 and $25.25 thereafter	600,000	15,000	600,000	15,000
Purchased for cancellation	49,423	1,235	34,023	850
	550,577	13,765	565,977	14,150
		19,346		19,842
COMMON STOCK (note 13)				
Authorized without nominal or par value	20,000,000		20,000,000	
Issued and fully paid	12,306,118	35,279	12,131,720	33,153

Policies, Accounting Principles and Other Data

INTER-COMPANY BORROWING

IAC, the parent company, does not borrow from subsidiaries. Subsidiaries are not permitted to invest in IAC securities either by way of debt instruments or of preferred or common stock.

BORROWING IN CURRENCIES OTHER THAN CANADIAN DOLLARS

The only borrowings in foreign currencies are in U.S. funds. Fully hedged borrowings are recorded at exchange rates established under forward exchange contracts. This would usually include all short-term borrowings and all or part of medium-term borrowings. Unhedged debt with an original term of more than one year is stated at the Canadian equivalent based upon the exchange rate prevailing at the close of the related financial period. This policy was adopted in June 1971. Previously such debt had been stated on the basis of proceeds received. The results of the policy change are detailed in Note 10 to the Consolidated Financial Statements.

METHOD OF ASSESSING DOUBTFUL RECEIVABLES

The entire portfolio is reviewed for collectibility each month and any 'potential loss' is provided for. After collection possibilities have been exhausted, any balance remaining on the account is written off. In arriving at the allowance for doubtful receivables, the collectibility of all accounts is carefully appraised (1) at branch level, (2) by regional managers*, (3) by division general managers* and (4) if necessary by other executive officers. The shareholders' auditors participate closely in this appraisal during each audit.

*For parent company and by equivalent ranking officers for each subsidiary.

DELINQUENCIES

Delinquent accounts are those on which the lesser of $25. or half of an instalment is past due one month or more. Renewed accounts are analyzed on the basis of the current payment schedule and extended accounts on the basis of the extended schedule. Partial payments, no matter how recent, will not remove an account from delinquent status. Renewals and extensions of accounts are carefully controlled. The Supplement to this Annual Report contains detailed information.

BRANCH START-UP EXPENSES

Start-up expenses of new branches are charged to current earnings as and when incurred.

AMORTIZATION OF INTANGIBLES

Debt discount and expenses are amortized over the term of the related debt instruments. In case of exchange or prepayment at the holder's option the amortization term is calculated to the date of the first option. Leasehold improvements are amortized in accordance with the regulations of the Income Tax Act (Canada). Improvements to owned properties are amortized over five years, or over 10 years if the cost exceeds $10,000.

DEPRECIATION POLICIES

In the case of buildings, depreciation is booked on a straight-line basis at the rate of 2.5% per annum. The maximum rates allowable are claimed for tax purposes. Any resulting tax difference is recorded as deferred income tax. All other physical assets are depreciated at the rates allowed by tax regulations.

TREATMENT OF LEASING INCOME

For leased assets, the excess of aggregate rentals over cost is recorded as income over the term of the lease in decreasing amounts pro-rata to the declining balance of the investment not yet recovered. For tax purposes, rentals are treated as income and maximum capital cost allowance is deducted therefrom. Any resulting tax difference is recorded as deferred income tax. Gains arising from residual values of leased assets are reflected in earnings only when realized, except where they are contractual. In this case, these values are included in income.

TREATMENT OF UNEARNED INCOME

The IAC companies normally use the sum-of-the-digits method of determining unearned service charges. The calculation is performed on an account-by-account basis by computer with no allowance for any 'acquisition charge' in the month a contract is acquired. Income is deferred by IAC, the parent company, in such a way as to maintain the original yield on each account to its maturity. Since August 1970, for IAC contracts written in excess of 48 months, deferred income has been taken into earnings on the actuarial yield basis which is more conservative. Consumer loan transactions of Niagara Finance Company Limited with precomputed charges involve higher initial costs than those of retail sales finance and, in this case, income is deferred equal to the total maximum rebate refundable for each account assuming it were paid out immediately after the close of any financial period. In addition to precomputed service charges, the purchase of regular mortgages at a discount gives rise to unearned income. This is deferred over the lesser of the remaining term of the mortgage or 10 years on the sum-of-the-digits method. In respect of combined mortgages, $35 of the 2% non-refundable fee is taken into income in the month the mortgage is written, to offset the same amount of closing fee paid. The balance is taken into income over the following 59 months (the maximum term of such loans is 5 years) using the sum-of-the-digits method.

Unearned casualty insurance premiums are taken into earned income on a straight-line basis as follows:

a) On policies sold directly to the public, 20% of the premium is immediately credited to income to cover acquisition expense. The remaining 80% is taken into earnings over the term of each policy. However, in accordance with income tax regulations, for tax assessment purposes 100% of the premium is deferred.

b) On policies sold to motor vehicle buyers using the parent company's financing facilities, the entire premium is deferred to be taken into income over the life of the policy.

INCOME TAX ALLOCATION

When timing differences occur between accounting income and taxable income, IAC and all its subsidiaries account for income taxes on the tax allocation basis.

PENSION FUNDS

IAC has a contributory pension plan (based on retirement at age 62) covering all permanent employees with over one year of service, except those of the life assurance company. The pension plan is based on the average remuneration received over a period of five consecutive years prior to retirement to equal a 'final earnings' plan. This is the result of a change in the pension plan, effective December 31, 1971 which eliminates the need for any updating. The company's contribution for 1971 amounted to $770,000 (1970: $762,000). In addition the company contributed $238,000 (1970: $246,000) to various government pension plans.

The Sovereign Life Assurance Company of Canada has its own pension plan based on retirement at age 65 for employees hired prior to 1970 and at age 62 for staff engaged after December 31, 1969.

Ten Year Operating and Statistical Summary*

	1971		1970		1969		196	
VOLUME OF BUSINESS ($000's)								
Sales financing—wholesale	955,291		738,933		764,918		768,61	
—retail	431,658		428,543		505,063		478,53	
Consumer loans	175,419		168,422		174,752		178,47	
Residential mortgages	30,084		20,181		18,113		12,33	
Commercial loans and leasing	46,909		47,776		42,986		25,37	
Net casualty insurance premiums written	9,598		10,149		10,882		10,30	
New ordinary life assurance —business written	51,500		47,400		46,900		44,00	
ASSETS & LIABILITIES ($000's)								
Total assets	1,232,940		1,176,661		1,152,286		1,076,44	
Receivables	1,137,241		1,082,954		1,075,552		1,001,01	
Total debt	850,844		841,506		843,284		795,44	
Total equity	160,882		150,628		143,431		138,30	
Debt to equity ratio: times	5.29		5.59		5.88		5.7	
OPERATING HIGHLIGHTS ($000's) (per cent of gross income)								
Gross income	138,502		143,244		136,327		122,510	
Cost of borrowed money	52,838	38.1	60,693	42.4	56,030	41.1	48,958	40.
General expenses	40,740	29.4	40,938	28.6	40,161	29.5	36,761	30.
Earnings	19,415	14.0	16,862	11.8	15,484	11.4	14,936	12.
Preferred dividends	1,064	.8	1,079	.8	1,118	.8	1,146	.
Earnings applicable to common shares	18,351	13.2	15,783	11.0	14,366	10.5	13,790	11.
COMMON STOCK FACTS								
Earnings per share outstanding —daily average	$1.50		$1.30		$1.19		$1.1	
Per cent return on average equity	13.5		12.5		12.1		12.	
Dividends paid per share	$ .80		$ .72½		$ .70		$ .6	
Income and other taxes per share	$1.66		$1.53		$1.45		$1.3	
Number of shareholders	12,802		13,502		13,904		14,08	
Number of shares outstanding								
—year end	12,306,118		12,131,720		12,060,587		11,977,82	
—daily average	12,207,770		12,085,813		11,992,218		11,954,17	
—owned in Canada—year end %	95.2		94.7		94.1		94.	
Book value per share	$11.50		$10.78		$10.17		$9.7	

*Note: The above summary excludes data for The Sovereign Life Assurance Company of Canada, except for volume. Figures prior to 1969 reflect the two-for-one subdivision of common shares in May 1969.

1967	1966	1965	1964	1963	1962
626,863	602,313	701,635	560,862	486,679	386,247
380,321	397,036	422,541	402,094	368,320	359,730
164,450	157,019	166,745	155,463	136,244	136,567
13,157	6,111	14,264	13,391	1,233	
18,405	14,443	41,208	46,851	37,308	30,197
10,186	9,592	8,968	10,107	10,951	11,521
36,900	34,500	39,800	35,600	29,300	23,800

972,696	943,536	983,198	876,001	749,897	669,877
893,828	887,427	931,533	795,023	679,558	606,203
720,252	697,472	751,948	665,224	555,119	484,506
132,650	126,941	106,728	101,247	100,385	101,115
5.43	5.49	7.05	6.57	5.53	4.79

109,131		107,409		100,713		93,198		87,616		83,191	
41,577	38.1	43,386	40.4	37,431	37.2	31,000	33.3	26,546	30.3	22,771	27.4
34,715	31.8	32,628	30.4	32,214	32.0	30,466	32.7	28,643	32.7	26,851	32.1
14,205	13.0	13,509	12.6	12,297	12.2	11,715	12.6	11,523	13.2	11,838	14.2
1,167	1.1	856	.8	327	.3	382	.4	580	.7	832	1.0
13,038	11.9	12,653	11.8	11,970	11.9	11,333	12.2	10,943	12.5	11,006	13.2

$1.09	$1.06½	$1.01	$ .96	$ .92½	$ .93
12.1	12.4	12.4	12.5	12.7	14.1
$ .61¼	$ .60	$ .56¼	$ .55	$ .51¼	$ .50
$1.11½	$1.09	$1.10½	$1.03	$1.05	$1.11
13,675	13,776	13,220	13,486	11,144	9,760
11,948,622	11,868,096	11,859,934	11,822,304	11,794,750	11,779,890
11,917,132	11,861,052	11,838,938	11,802,120	11,786,924	11,773,462
93.1	92.4	91.1	89.1	83.5	78.2
$9.30	$8.84	$8.40	$7.94	$7.53	$7.13

Niagara Finance Company Limited

Niagara Finance Company Limited offers instalment cash loans to the individual consumer and a sales financing service for the purchase of household durables. Licensed under the Small Loans Act, it is your company's largest subsidiary.

As the result of moderate growth during the year, receivables at year end had reached a record high of $178 million.

With the phasing out of financing of certain types of consumer durables, the total number of open accounts declined during 1971 from 250,000 to 227,000.

Earnings for the year at $4,524,000 increased $935,000 or 26.0% over those for 1970.

The modest decline in gross income to $29.0 million from $29.8 in 1970 reflected an increase in the provision for doubtful receivables which your directors deemed prudent in the light of continuing high levels of unemployment.

The average cost of borrowed funds declined to 6.5%, from 7.9% the previous year. As a result, this major expense was down some $2 million in 1971.

General and administrative expenses also declined slightly in response to continuing emphasis on careful budgeting and expense control.

As at year end, the company provided its services through 255 offices in Canada and 10 in the United Kingdom.

The anticipated improvement in general economic conditions should result in a further growth in receivables and correspondingly higher earnings for the year 1972.

SELECTED NIAGARA FINANCE STATISTICS

	1971	1970	1969	1968	1967	1962
Earnings ($ thousands)	4,524	3,590	3,323	3,541	3,521	2,906
Receivables ($ millions)	178.3	174.7	170.3	164.9	151.5	109.5

Statement of Earnings
for the year ended December 31, 1971

	1971 $	1970 $
GROSS INCOME (note 1)	28,999,935	29,758,138
EXPENDITURE (note 2)		
Cost of borrowed money	7,412,577	9,403,772
General and administrative	12,365,892	12,613,500
	19,778,469	22,017,272
	9,221,466	7,740,866
PROVISION FOR INCOME TAXES		
Current	4,728,000	4,177,000
Deferred	(31,000)	(26,000)
	4,697,000	4,151,000
EARNINGS	4,524,466	3,589,866

Statement of Retained Earnings
for the year ended December 31, 1971

	1971 $	1970 $
EARNINGS FOR THE YEAR	4,524,466	3,589,866
DIVIDENDS		
Class A shares	1,400,000	1,400,000
Common shares	1,400,000	1,400,000
	2,800,000	2,800,000
INCREASE IN RETAINED EARNINGS FOR THE YEAR	1,724,466	789,866
RETAINED EARNINGS AT BEGINNING OF YEAR	5,189,173	4,399,307
RETAINED EARNINGS AT END OF YEAR	6,913,639	5,189,173

Statement of Source and Application of Funds
for the year ended December 31, 1971

(presented in accordance with the provisions of The Business Corporations Act, 1970–Ontario)

	1971 $	1970 $
SOURCE OF FUNDS		
Provided from operations	6,690,725	5,510,843
Proceeds from issue of medium-term notes	567,000	2,450,000
Increase in unearned income	2,696,763	2,881,395
	9,954,488	10,842,238
APPLICATION OF FUNDS		
Increase in leasehold improvements and prepaid expenses	179,213	250,319
Increase in unamortized debt discount and expense	1,726,351	1,833,160
Additions to fixed assets–net	331,053	190,451
Redemption of medium-term notes	1,184,000	5,735,875
Payment of dividends	2,800,000	2,800,000
	6,220,617	10,809,805
INCREASE IN WORKING CAPITAL	3,733,871	32,433
WORKING CAPITAL AT BEGINNING OF YEAR	98,095,464	98,063,031
WORKING CAPITAL AT END OF YEAR	101,829,335	98,095,464

Balance Sheet
as at December 31, 1971

NIAGARA FINANCE COMPANY LIMITED

	1971	1970
ASSETS	$	$
CURRENT ASSETS		
Cash	5,131,891	3,411,459
Receivables—		
Small loans (note 3)	71,821,610	80,497,874
Other loans	87,280,439	75,067,400
Sales financing—retail	18,985,252	18,755,679
Other	156,341	385,469
Vehicles and equipment held for sale	8,905	7,324
	178,252,547	174,713,746
Allowance for doubtful receivables	3,935,284	3,126,804
	174,317,263	171,586,942
	179,449,154	174,998,401
OTHER ASSETS AND DEFERRED CHARGES		
Leasehold improvements and prepaid expenses	322,581	298,360
Unamortized debt discount and expense	1,051,289	1,127,265
Office equipment and automobiles—at cost, less accumulated depreciation of $844,703 (1970—$938,660)	681,585	590,472
	2,055,455	2,016,097
	181,504,609	177,014,498
LIABILITIES		
CURRENT LIABILITIES		
Secured demand bank loans	14,000,000	13,000,000
Secured short-term notes	51,544,726	45,617,395
Demand note payable—parent company	5,200,000	12,200,000
Accounts payable and accrued liabilities	6,106,721	5,633,740
Income taxes	768,372	451,802
	77,619,819	76,902,937
SECURED MEDIUM-TERM NOTES (note 4)	2,577,000	3,194,000
SECURED LONG-TERM NOTES (note 5)	42,500,000	42,500,000
DEBENTURES (note 6)	6,000,000	6,000,000
	51,077,000	51,694,000
UNEARNED INCOME	20,684,847	17,988,084
DEFERRED INCOME TAXES	209,304	240,304
	149,590,970	146,825,325
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized—		
150,000 $5\frac{1}{4}$% non-cumulative participating class A shares of $100 each redeemable at par		
150,000 common shares without nominal or par value		
Issued and fully paid—		
125,000 class A shares	12,500,000	12,500,000
125,000 common shares	12,500,000	12,500,000
	25,000,000	25,000,000
RETAINED EARNINGS	6,913,639	5,189,173
	31,913,639	30,189,173
	181,504,609	177,014,498

Signed on behalf of the Board

J. S. LAND } Directors
B. F. LONDON }

Notes to Financial Statements
for the year ended December 31, 1971

1 GROSS INCOME

	1971 $	1970 $
Earned service charges and interest on receivables	32,447,050	32,155,416
Less: Provision for doubtful receivables	3,447,115	2,397,278
	28,999,935	29,758,138

2 EXPENDITURE

Expenditure includes the following shown in accordance with The Business Corporations Act, 1970—Ontario.

	1971 $	1970 $
Cost of borrowed money on indebtedness initially incurred for a period of more than one year	3,502,227	3,819,122
Directors' and senior officers' remuneration	127,090	118,723
Depreciation of office equipment and automobiles	239,940	207,814

3 SMALL LOANS

Small loans are those made for not more than $1,500 which are regulated under the Small Loans Act and upon which interest is accrued but not precomputed.

4 DETAILS OF SECURED MEDIUM-TERM NOTES
(issued for a term of over one and not more than ten years at various rates of interest)

Year of maturity	1971 $	1970 $
1971		1,184,000
1972	730,000	375,000
1973	550,000	383,000
1974	1,100,000	1,100,000
1975	90,000	90,000
1976	51,000	6,000
1977	21,000	21,000
1979	15,000	15,000
1980	20,000	20,000
	2,577,000	3,194,000

5 DETAILS OF SECURED LONG-TERM NOTES
(issued for a term of more than ten years)

Year of issue	Series	Rate %	Maturity date	1971 $000's	1970 $000's
1964	1	5¾	April 15, 1984	10,000	10,000
1964	2	5¾	May 1, 1985	10,000	10,000
1965	3	5¾	May 1, 1985	10,000	10,000
1966	4	7½	December 1, 1986	5,000	5,000
1968	5	8¼	May 1, 1988	7,500	7,500
				42,500	42,500

6 DETAILS OF DEBENTURES

Year of issue	Series	Rate %	Maturity date	1971 $000's	1970 $000's
1967	A	7¼	June 30, 1972	6,000	6,000

These were exchangeable at the holders' option for 7¼% sinking fund debentures, Series A due June 30, 1987 provided an election to exchange was filed in January 1972. Holders of $74,000 of the debentures have so elected.

Auditors' Report

TO THE SHAREHOLDERS:

We have examined the balance sheet of Niagara Finance Company Limited as at December 31, 1971 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

February 11, 1972

Niagara Realty of Canada Limited and Subsidiary

During the year the Company's name was changed from Niagara Mortgage & Loan Company Limited to Niagara Realty of Canada Limited.

Results in 1971 were very satisfactory. Receivables grew by 21.3% to $76 million and the number of customers increased by 8.6% to 16,600.

At year-end Niagara Realty operated 16 specialized branches. Additionally, through an arrangement with Niagara Finance Company Limited, it offered its services through 175 of that company's offices (1970-71).

The affairs of Niagara Realty are administered by Niagara Finance for IAC.

The combination of increased receivables and somewhat lower average cost of borrowed money resulted in an increase in earnings of $651,235 or 78%.

During the year, the Company arranged a public issue of $20 million in 7⅞% secured notes, Series B due December 15, 1986.

It is expected that satisfactory growth will be maintained through 1972 and that continued increase in earnings may be anticipated.

SELECTED NIAGARA REALTY STATISTICS

	1971	1970	1969	1968	1967
Earnings ($ thousands)	1,483	832	579	519	395
Mortgage receivables ($ millions)	76.0	62.6	52.0	42.0	36.5
Average mortgage balance at year end (dollars)	4,580	4,099	3,825	3,519	3,317

Consolidated Statement of Earnings
for the year ended December 31, 1971

NIAGARA REALTY OF CANADA LIMITED
AND SUBSIDIARY (note 1)

	1971 $	1970 $
GROSS INCOME (note 2)	9,248,537	7,219,050
EXPENDITURE		
Cost of borrowed money	4,293,330	4,129,503
General and administrative	1,879,509	1,295,511
Depreciation of office equipment and automobiles	16,773	18,046
	6,189,612	5,443,060
	3,058,925	1,775,990
PROVISION FOR INCOME TAXES		
Current	1,313,245	824,261
Deferred	262,255	119,539
	1,575,500	943,800
EARNINGS	1,483,425	832,190

Consolidated Statement of Retained Earnings
for the year ended December 31, 1971

	1971 $	1970 $
EARNINGS FOR THE YEAR	1,483,425	832,190
Dividends paid	750,000	576,411
INCREASE IN RETAINED EARNINGS FOR THE YEAR	733,425	255,779
RETAINED EARNINGS AT BEGINNING OF YEAR	1,243,917	988,138
RETAINED EARNINGS AT END OF YEAR	1,977,342	1,243,917

Auditors' Report

TO THE SHAREHOLDERS:

We have examined the consolidated balance sheet of Niagara Realty of Canada Limited and subsidiary as at December 31, 1971 and the consolidated statements of earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

February 11, 1972

Consolidated Balance Sheet
as at December 31, 1971

NIAGARA REALTY OF CANADA LIMITED
AND SUBSIDIARY (note 1)

	1971	1970
ASSETS	$	$
CURRENT ASSETS		
Cash	1,473,835	1,161,828
Cash committed for unclosed loans	834,312	627,390
Receivables–		
Residential mortgages	75,992,129	62,630,600
Real estate held for sale–at estimated realizable value	50,446	28,177
Other	207,523	300,537
	76,250,098	62,959,314
Allowance for doubtful receivables	570,319	469,941
	75,679,779	62,489,373
	77,987,926	64,278,591
OTHER ASSETS		
Prepaid expenses	11,265	7,844
Unamortized debt expense	537,921	118,283
Office equipment and automobiles–at cost, less accumulated depreciation of $55,077 (1970–$56,080)	44,526	48,523
	593,712	174,650
	78,581,638	64,453,241
LIABILITIES		
CURRENT LIABILITIES		
Demand note payable–parent company	37,860,000	45,595,000
Accounts payable and accrued liabilities	871,855	592,600
Income taxes	497,990	223,671
	39,229,845	46,411,271
SECURED LONG-TERM NOTES (note 4)	30,000,000	10,000,000
UNEARNED INCOME (note 5)	1,801,136	1,486,993
DEFERRED INCOME TAXES (note 6)	573,315	311,060
	71,604,296	58,209,324
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized– 2,000,000 shares of $5 each		
Issued and fully paid– 1,000,000 shares	5,000,000	5,000,000
RETAINED EARNINGS	1,977,342	1,243,917
	6,977,342	6,243,917
	78,581,638	64,453,241

Signed on behalf of the Board

J. S. LAND
B. F. LONDON } Directors

Notes to Consolidated Financial Statements
for the year ended December 31, 1971

NIAGARA REALTY
OF CANADA LIMITED
AND SUBSIDIARY

1 COMPARATIVE FIGURES

By agreement dated September 24, 1970, the company acquired all the outstanding common stock of Niagara Realty Limited for a consideration of $250,000. Immediately prior thereto the retained earnings of that company had been eliminated by the payment of a dividend to its former parent IAC Limited. Thus the purchase price represented the book value of the shares of Niagara Realty Limited at the effective date of the transaction.

The 1970 figures of the subsidiary are included in the accompanying consolidated financial statements for purposes of comparison.

2 GROSS INCOME

	1971 $	1970 $
Earned income on mortgages	9,413,636	7,319,392
Less: Provision for doubtful receivables	165,099	100,342
	9,248,537	7,219,050

3 REMUNERATION OF DIRECTORS AND OFFICERS

	1971	1970
Aggregate remuneration of directors as directors	Nil	Nil
Number of directors	5	5
Aggregate remuneration of officers as officers	$19,341	$18,354
Number of officers	4	4
Number of officers who are also directors	1	1

The affairs of the companies are largely administered by Niagara Finance Company Limited.

4 DETAILS OF SECURED LONG-TERM NOTES

Year of issue	Series	Rate %	Maturity date	**1971** $000's	1970 $000's
1970	"A"	$9\frac{1}{4}$*	December 15, 1990	10,000	10,000
1971	"B"	$7\frac{7}{8}$**	December 15, 1986	20,000	
				30,000	10,000

*The interest rate on these notes increases to $9\frac{1}{2}$% on December 15, 1973 and to $9\frac{3}{4}$% on December 15, 1975. Holders have the right to prepayment on December 15, 1973, 1975, 1980 and 1985.

**Holders have the right to prepayment on December 15, 1978.

IAC Limited has guaranteed Series "A" and "B" notes as to principal, interest and redemption premiums, if any.

5 UNEARNED INCOME

This arises from mortgages purchased at a discount and from fees paid in advance on certain mortgages.

6 DEFERRED INCOME TAXES

Deferred income taxes arise from timing differences relating to the treatment of income or expenses associated with the following balance sheet items:

	1971 $	1970 $
Residential mortgages	299,680	248,713
Unamortized debt expense	273,635	62,347
	573,315	311,060

7 SOURCE AND APPLICATION OF FUNDS

Because of the nature of the activities of the company and its subsidiary it is not meaningful to prepare a consolidated statement of source and application of funds.

Merit Insurance Company

In 1971 the planned reduction of motor vehicle coverage arising from the parent company's retail sales financing activities continued. As a result, while there was an increase in volume of business written on a direct basis, premiums written declined $550,000 to $9,598,000.

There was a large increase in reinsurance costs mainly attributable to claims incurred in prior years. General and administrative expenses were also up substantially largely as the result of major changes in procedures and data processing systems. An increase in investment income partially offset these increased costs as the result of which earnings amounted to $178,905 as compared to $246,176 in the previous year.

In 1971, having acquired the necessary experienced personnel, Merit commenced the writing of commercial fire business. It is felt that this diversification will help to offset the wide fluctuations in claims experienced in automobile insurance.

During the year Merit–Sovereign coordination of services progressed satisfactorily. Computer operations were successfully merged and by year end the two companies were working well together. Plans for further sharing of services are being implemented.

With a stabilization of general and administrative expense, a broader mix of business and sound underwriting it is anticipated that Merit will show improved results in 1972.

SELECTED MERIT INSURANCE COMPANY STATISTICS

(Thousands of Canadian Dollars)	**1971**	**1970**	**1969**	**1968**	**1967**	**1962**
Premiums earned	9,524	10,301	10,638	10,292	9,865	12,038
Claims incurred	6,510	7,343	8,403	6,839	6,091	9,447
Expenses	3,560	3,361	3,464	3,158	2,919	3,312
Underwriting gain (loss)	(545)	(403)	(1,229)	294	856	(721)
Investment and other income	735	699	847	663	565	441
Income taxes	11	50	(109)	182	–	–
Earnings (loss)	179	246	(273)	775	1,421	(280)

Statement of Earnings
for the year ended December 31, 1971

MERIT INSURANCE COMPANY

		1971 $		1970 $	**1971** %	1970 %
PREMIUMS						
Net premiums written		9,598,147		10,148,923		
Less: Reinsurance premiums		405,043		145,629		
		9,193,104		10,003,294		
Change in unearned premium reserve		331,291		297,617		
PREMIUMS EARNED		9,524,395		10,300,911	100.00	100.00
EXPENSES						
Claims incurred	5,873,739		6,610,187			
Staff adjusting expenses	636,105	6,509,844	732,360	7,342,547	68.35	71.28
		3,014,551		2,958,364	31.65	28.72
Commissions	981,878		841,173			
General and administrative	2,322,395		2,254,125			
Taxes and licences	255,373	3,559,646	266,166	3,361,464	37.37	32.63
UNDERWRITING GAIN (LOSS)		(545,095)		(403,100)	(5.72)	(3.91)
OTHER INCOME						
Income from investments	622,567		641,979			
Gain on sale of investments	112,443	735,010	57,791	699,770		
		189,915		296,670		
INCOME TAXES (note)						
Current			37,007			
Deferred	11,010	11,010	50,494	87,501		
EARNINGS BEFORE EXTRAORDINARY ITEM		178,905		209,169		
EXTRAORDINARY ITEM						
Reduction of income taxes on application of prior year's loss				37,007		
EARNINGS		178,905		246,176		

NOTE: As at December 31, 1971, there were approximately $508,000 of losses which may be applied against taxable income of future years not later than as follows:
1974–$420,000
1976–$ 88,000

Statement of Retained Earnings
for the year ended December 31, 1971

	1971 $	1970 $
EARNINGS FOR THE YEAR	178,905	246,176
RETAINED EARNINGS AT BEGINNING OF YEAR	4,113,389	3,867,213
RETAINED EARNINGS AT END OF YEAR	4,292,294	4,113,389

Balance Sheet
as at December 31, 1971

MERIT INSURANCE COMPANY

	1971	1970
ASSETS	$	$
Cash	405,491	608,705
Reinsurer's deposit in respect of outstanding claims (contra)	450,321	183,301
Accounts receivable	1,746,526	1,385,403
Prepaid expenses	5,433	9,528
Income taxes recoverable		8,553
Investments—at cost plus accrued income (quoted value 1971—$10,638,804; 1970—$10,332,514)	11,461,333	11,662,490
Office equipment and automobiles—at cost, less accumulated depreciation of $293,678 (1970—$325,516)	167,167	185,812
Leasehold improvements—at cost, less amounts written off	232,979	248,140
	14,469,250	14,291,932
LIABILITIES		
Accounts payable and accrued liabilities	292,804	237,058
Accrued premium taxes	32,522	41,766
Provision for outstanding claims and adjusting expenses	3,081,067	3,075,894
Reinsurer's advance (contra)	450,321	183,301
	3,856,714	3,538,019
UNEARNED PREMIUM RESERVE	4,180,646	4,511,938
DEFERRED INCOME TAXES	479,296	468,286
	8,516,656	8,518,243
SHAREHOLDERS' EQUITY		
CAPITAL STOCK		
Authorized —10,000 shares of $100 each		
Issued and fully paid— 5,830 shares	583,000	583,000
PREMIUM ON SHARES ISSUED	327,300	327,300
CONTRIBUTED SURPLUS	750,000	750,000
RETAINED EARNINGS	4,292,294	4,113,389
	5,952,594	5,773,689
	14,469,250	14,291,932

Signed on behalf of the Board

J. S. LAND
D. J. WILSON } Directors

Auditors' Report

TO THE SHAREHOLDERS:

We have examined the balance sheet of Merit Insurance Company as at December 31, 1971 and the statements of earnings and retained earnings for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

February 2, 1972

The Sovereign Life Assurance Company of Canada

New ordinary insurance and annuities issued in 1971 totalled $51.5 million marking the highest level of sales in the company's history. The annual premium income value of this new business is $805,000, as compared to $661,000 in 1970. The increase of 21.8% was greater than the increase recorded by the industry as a whole last year.

This encouraging growth resulted from new plans introduced at the beginning of the year and sales produced by the agents of Merit Insurance Company and certain licensed sales personnel of a major mutual fund management company.

Revenue, consisting of premiums and investment earnings including interest, dividends and rents amounted to $12,295,779 (1970—$11,518,873). A major factor contributing to the increase in premiums was the growth in ordinary insurance, and, additionally, a different method of premium payment on certain group policies.

Investment earnings continued to increase but at a lesser rate than in the previous year, reflecting somewhat lower yields on new investments. Gain on disposal of securities, mainly common stocks, was $260,253, compared with $84,501 in 1970.

Expenses decreased to $2,932,362 (1970—$2,989,861) despite the substantial increase in new business and the general upward trend of most operating costs. Careful budgeting and cost controls along with economies effected through the combining of a number of administrative operations with Merit Insurance Company were responsible for this very satisfactory performance.

Net yield on all investments, after related expenses, was 6.37%, unchanged from 1970.

After making all necessary provisions, the combined total of capital, surplus and reserve accounts was $9,426,438, equal to 14.4% of assets.

The present value, discounted at 5%, of future earnings after tax from business now in force and from which earnings would continue even if Sovereign were to cease all selling activity, was calculated at December 31, 1971 to be $2,988,067 (1970—$2,959,886).

Copies of the Sovereign 1971 report, which reflects a year of solid progress, are available from the Secretary of Sovereign or of IAC.

SELECTED SOVEREIGN LIFE STATISTICS

(Millions of Canadian Dollars)	**1971**	**1970**	**1969**	**1968**	**1967**	**1962***
Insurance in force:						
Ordinary	343.7	323.3	311.0	293.5	275.5	216.2
Group	401.4	420.0	449.6	386.8	334.8	2.6
Total	745.1	743.3	760.6	680.3	610.3	218.8
New business written:						
Ordinary	51.5	47.4	46.9	44.0	36.9	23.8
Group (Net change)	(18.7)	(29.6)	62.8	52.0	(18.8)	0.7
Policy reserves	46.7	45.4	45.6	44.9	43.2	37.2
Total assets	65.4	63.2	62.5	60.4	57.8	46.1
Net interest earned: Per cent	6.37	6.37	6.20	6.05	6.07	5.21

*Year of acquisition by IAC

Statement of Revenue

for the year ended December 31, 1971

THE SOVEREIGN LIFE ASSURANCE COMPANY OF CANADA

	1971 $	1970 $
REVENUE		
Premiums and annuity considerations	8,349,352	7,653,352
Interest, dividends and rents, less related expenses of $264,548 (1970—$267,189)	3,946,427	3,865,521
	12,295,779	11,518,873
POLICYHOLDER DISTRIBUTION AND EXPENDITURES		
Amounts paid to or set aside for policyholders and beneficiaries—		
Death and ordinary disability claims	2,741,442	2,629,603
Group disability claims	1,130,604	844,906
Matured endowments	579,224	714,214
Annuity benefits	208,952	214,791
Surrender values	1,784,454	2,390,345
Increase (decrease) in reserves for insurance and annuity contracts	1,240,410	(183,930)
Interest credited to funds on deposit and pension fund	257,912	235,498
	7,942,998	6,845,427
Dividends to participating policyholders (including increase in provision)	876,841	660,522
Policyholders' investment taxes	186,000	176,000
Group experience rating refunds (including increase in provision)	49,957	461,396
	9,055,796	8,143,345
OPERATING EXPENSES	2,932,362	2,989,861
	11,988,158	11,133,206
OPERATING REVENUE BEFORE INCOME TAXES	307,621	385,667
PROVISION FOR INCOME TAXES	113,000	128,000
OPERATING REVENUE	194,621	257,667
Gain on disposal of securities less income taxes	260,253	84,501
EXCESS OF REVENUE FOR THE YEAR	454,874	342,168

Statement of Unassigned Surplus

for the year ended December 31, 1971

	1971 $	1970 $
UNASSIGNED SURPLUS—BEGINNING OF YEAR	7,014,614	6,672,446
Excess of revenue for year	454,874	342,168
	7,469,488	7,014,614
Allocation to contingency reserve	100,000	—
UNASSIGNED SURPLUS—END OF YEAR (note 3)	7,369,488	7,014,614

Auditors' Report

TO THE POLICYHOLDERS AND SHAREHOLDERS:

We have examined the balance sheet of The Sovereign Life Assurance Company of Canada as at December 31, 1971 and the statements of revenue and unassigned surplus for the year then ended. Our examination included verification of the cash and investments in bonds and stocks by certificates from the depositories, a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. The reserves and other liabilities under the various assurance and annuity contracts are stated at amounts certified by the company's actuary.

In our opinion, based upon our examination and upon the certificate of the company's actuary, these financial statements present fairly the financial position of the company as at December 31, 1971 and the results of its operations for the year then ended, in accordance with accounting practices appropriate to the insurance laws of Canada applied on a basis consistent with that of the preceding year.

McDONALD, CURRIE & CO.
Chartered Accountants

January 27, 1972

Balance Sheet
as at December 31, 1971

THE SOVEREIGN LIFE ASSURANCE COMPANY OF CANADA

	1971	1970
ASSETS	$	$
Bonds and debentures, at amortized cost or less (note 1)	22,548,963	22,216,601
Common and preferred stocks, at cost or less (note 1)	3,563,925	3,725,685
First mortgages and agreements for sale on real estate	31,244,424	30,926,933
Loans on policies, secured by cash values	3,806,914	3,644,813
Real estate–		
Purchased for income, at cost, less amounts written off–$94,899 (1970–$78,283)	1,304,554	1,321,170
Cash and short-term investments	2,011,823	353,830
Premiums in course of collection	147,716	219,433
Investment income due and accrued	621,258	636,154
Other assets	123,572	111,327
	65,373,149	63,155,946
LIABILITIES		
Reserves for insurance and annuity contracts	46,669,944	45,429,534
Policyholders' funds on deposit	3,623,830	3,227,662
Policy claims in course of settlement and provision for unreported claims of $335,700 (1970–$327,320)	791,374	793,595
Mortgagors' tax prepayments	692,156	715,042
Premium and other taxes accrued (note 2)	266,508	165,781
Other liabilities and accruals	162,143	175,007
Provision for dividends to policyholders	1,942,985	1,799,518
Provision for experience rating refunds	303,727	525,747
Staff and agents' pension and insurance funds	1,494,044	1,352,496
	55,946,711	54,184,382
CAPITAL AND SURPLUS		
CAPITAL STOCK		
Authorized–10,000 shares of $100 each		
Issued – 8,406 shares of $100 each of which 24 shares are fully paid and 8,382 shares are $25 paid	211,950	211,950
INVESTMENT RESERVE	1,000,000	1,000,000
CONTINGENCY RESERVE	750,000	650,000
SHAREHOLDERS' SURPLUS	95,000	95,000
UNASSIGNED SURPLUS (note 3)	7,369,488	7,014,614
	9,426,438	8,971,564
	65,373,149	63,155,946

Signed on behalf of the Board

J. S. LAND
W. R. LIVINGSTON } Directors

Notes to Financial Statements
for the year ended December 31, 1971

1 VALUATION OF BONDS, DEBENTURES AND PREFERRED AND COMMON STOCKS

	1971 $	1970 $
Value stated in the balance sheet	26,112,888	25,942,286
Estimated market value	23,821,731	21,779,938
Maximum value at which these securities may be carried as prescribed by the insurance laws of Canada	24,901,847	24,513,797

2 ACCRUED TAXES
The 1969 tax returns filed by the company reflected taxes payable which were $130,000 less than that actually provided for in the accounts for 1969. This amount is included in premium and other taxes accrued.

3 UNASSIGNED SURPLUS
The shareholders' portion of the unassigned surplus amounts to $2,386,408 (1970–$2,086,634) of which $299,774 (1970–$248,243) represents the shareholders' share of the net increase in unassigned surplus for the year.

4 1970 COMPARATIVE FIGURES
Certain of the 1970 figures have been reclassified on the basis of the 1971 financial statement presentation.

Banks with which lines of credit are established

CANADA

The Royal Bank of Canada
Bank of Montreal
Canadian Imperial Bank of Commerce
The Toronto-Dominion Bank
Bank Canadian National
The Provincial Bank of Canada
The Mercantile Bank of Canada
The Bank of Nova Scotia

U.S.A.

Morgan Guaranty Trust Company of New York
Continental Illinois National Bank and Trust Company of Chicago
The Chase Manhattan Bank NA
The First National Bank of Chicago
Bankers Trust Company
First National City Bank
Chemical Bank
Crocker National Bank
Irving Trust Company
Manufacturers Hanover Trust Company
Marine Midland Bank–Western
National Bank of Detroit
National Bank of North America
Security Pacific National Bank
Wells Fargo Bank NA
French American Banking Corporation
Schroder Trust Company
The Northern Trust Company
The Bank of New York

TRANSFER AGENTS

COMMON STOCK

Montreal Trust Company
Montreal, Toronto, Regina, Calgary and Vancouver

The Bank of New York
New York

PREFERRED STOCK

The Royal Trust Company
Montreal, Toronto, Regina, Calgary and Vancouver

REGISTRARS

COMMON STOCK

Canada Permanent Trust Company
Montreal and Toronto

The Royal Trust Company
Regina, Calgary and Vancouver

The Bank of New York
New York

PREFERRED STOCK $100 PAR VALUE

Montreal Trust Company
Montreal, Toronto, Regina, Calgary and Vancouver

PREFERRED STOCK $25 PAR VALUE

Guaranty Trust Company of Canada
Montreal, Toronto, Regina, Calgary and Vancouver

STOCK LISTINGS

Montreal Stock Exchange
Toronto Stock Exchange
Vancouver Stock Exchange / Common Stock only

AUDITORS

McDonald, Currie & Co.
Montreal, Chartered Accountants

Financial and Insurance Services

Services of the IAC Companies are available at branches in all ten provinces and the Yukon. Niagara Finance Company Limited also maintains offices in the United Kingdom.

IAC LIMITED

Sales Financing • Purchase Credit Plans • Equipment Financing • Leasing
Fleet Financing • Portfolio Discounting • Capital Assets Leasing

NIAGARA FINANCE COMPANY LIMITED

Consumer Loans and Financing

MERIT INSURANCE COMPANY

Automobile, Comprehensive Home, and Personal Liability Insurance

NIAGARA REALTY OF CANADA LIMITED

NIAGARA REALTY LIMITED

First and Second Mortgage Loans • Mortgage Discounting • Combined Mortgages

THE SOVEREIGN LIFE ASSURANCE COMPANY OF CANADA

Life, Key Man, and Partnership Insurance • Estate Planning

IAC LIMITED

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